Central Intelligence Agency
Washington, D.C. 20505

DCI/DDCI Executive Staff

24 July 1986

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NOTE TO: DCI

28 JUL 1986

Here are proposed talking points and background material on Monday's meeting regarding subsidies for agricultural exports to the Soviet Union. It is principals only and will probably get into a fairly extensive discussion on domestic political implications. I think you have everything you need for the meeting and won't need any kind of pre-brief session, but [redacted] is standing by to answer any questions you may have.

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Senate Approves 10-Year Extension For Ex-Im Bank

7/23/86

By DAVID SHRIBMAN
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Senate approved a 10-year extension of the Export-Import Bank's activities and set a $1.8 billion limit for direct loans in the fiscal year starting Oct. 1.

The action, which came on a voice vote, would extend the bank through fiscal 1996. The Senate vote came a week after the House approved an extension for only two years.

The bill also authorizes a $300 million war chest that the Treasury Department could use on a case-by-case basis to combat what the U.S. considers unfair credit offers by export-credit agencies in other industrial countries, especially France.

"Without such an effort," said Sen. John Heinz (R., Pa.), "the U.S. is putting its fate and that of our economy into the hands of foreign competitors and their governments."

The bill would allow funds from the war chest to be used in combination with the Ex-Im Bank's own financing to offer very low interest rates. The House bill didn't include the war-chest provision.

The Senate accepted an amendment offered by Senate Majority Leader Robert Dole (R., Kan.) to include the Soviet Union in a program that provides foreign buyers bonuses of government-owned commodities as an enticement to buy commercial farm goods. The program, part of the 1985 farm bill, excludes the Soviet Union, and the White House has resisted the idea of subsidizing such sales to the Soviets.

"We want to do whatever we can to market the grain aggressively," Mr. Dole said. "Either we are going to trade with the Soviets or not. And if we're going to trade, we ought to be competitive. This is not subsidy. This is competition."

The Senate also accepted an amendment from Sen. Don Nickles (R., Okla.) prohibiting loans to assist financing of commodities that are in surplus in the U.S. The House bill included a similar provision.

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THE WHITE HOUSE

WASHINGTON

February 10, 1986

MEMORANDUM FOR THE PRESIDENT

FROM: THE ECONOMIC POLICY COUNCIL

SUBJECT: The Export Enhancement Program

In signing the Farm Bill, you stated your objections to several provisions of the legislation. One of these provisions was the requirement that the Administration expend all of the $2 billion payment-in-kind Export Enhancement Program over a three year period. You told the Congress that this program "threatens to precipitate an agricultural commodity trade war with our allies. Moreover, it may well be impossible to fulfill the $2 billion goal of the next three years without subsidizing exports in a manner which will be contrary to the national security interests of the United States."

The Economic Policy Council has developed for your consideration a recommendation for correcting the deficiencies of the Export Enhancement Program.

BACKGROUND

In May of 1985, the Administration and Senate leaders agreed to implement an Export Enhancement Program of up to $2 billion, which would use surplus commodities owned and stockpiled by the Federal Government as in-kind subsidies to third country markets where U.S. agricultural products are facing unfair foreign competition. Offered by the Administration to ensure passage of the desired Congressional Budget Resolution, the Export Enhancement Program did not require new legislative authority.

The Administration established the following published criteria for program eligibility: (1) demonstrating some additionality, or creating new markets for U.S. products; (2) targeting specific markets, in which U.S. agriculture is facing unfair foreign competition, usually from export subsidies; and (3) the program must not create any budget costs.

At the same time we developed three additional unpublished criteria: (4) the program should not harm debtor nations, such as Brazil or Argentina; (5) subsidies should not be provided to the Soviet Union or Soviet Bloc countries (or non-MFN nations); and (6) non-subsidizing exporters, such as Australia and Canada, should not be targeted.

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Using these criteria, the U.S. has awarded approximately $75 million in in-kind commodities, five months into the first year of the program. This low rate of expenditure undoubtedly contributed to Congress' action in making the program mandatory, instead of discretionary.

PROBLEMS WITH THE NEW PROGRAM

It is not possible for the Administration to award the $2 billion in-kind payments over three years without changing the Export Enhancement Program from a targeted program to an across-the-board program. This means that subsidies would be paid on every ton of eligible commodity exported -- regardless of destination. Wheat exported to the Soviet Union would receive the same subsidy as wheat sold to Brazil.

In addition, as a result of the Farm Bill, the U.S. program would no longer be focused soley on markets dominated by the European Economic Community, which subsidizes exports, but also on those markets of particular interest to non-subsidizing countries such as Australia and Canada as well.

Obtaining Congressional agreement to change this provision is going to be extremely difficult. In the last days of the Farm Bill debate, the Administration expended a great deal of effort attempting to avoid a mandatory program. The Congress rejected arguments regarding foreign policy as well as national security concerns.

RECOMMENDATION

The Economic Policy Council unanimously recommends that the Administration seek to amend the 1985 Farm Bill to specifically incorporate all six criteria currently used by the Administration in operating the Export Enhancement Program. We will convey to the Congress our intention to utilize all the program's resources subject to the criteria we seek to incorporate into the law.

___✓___ Approve ____________ Disapprove

James A. Baker III

James A. Baker, III
Chairman Pro Tempore

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